2001 Country Reports on Economic Policy and Trade Practices
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UNITED ARAB EMIRATES

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP 2/	52.0	65.9	61.3
Real GDP Growth (pct)	10.0	20.4	-7.0
GDP by Sector: 3/			
Agriculture	1.8	1.9	1.9
Manufacturing	6.5	7.9	7.0
Services	24.6	26.0	24.0
Government	5.7	6.7	6 .6
Per Capita GDP (US$)	17,700	21,200	19,200
Labor Force (000s)	1,500	1,600	1,700
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	11.4	11.1	8.0
Consumer Price Inflation (pct)	1.5-2	1.5-2	1.5-2
Exchange Rate (Dirham/US$ - annual average)			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports FOB 4/	35.9	45.3	41.0
Exports to United States 5/	0.7	1.0	1.4
Total Imports CIF 4/	32.5	32.6	34.0
Imports from United States 5/	2.7	2.3	2.7
Trade Balance 4/	3.4	12.7	7.0
Balance with United States 5/	-2.0	-1.3	-1.3
Current Account Surplus/GDP (pct)	3.4	19.3	11.0
External Public Debt	0.0	0.0	0.0
Fiscal Deficit/GDP (pct)	14.8	2.9	6.0
Debt Service Payments/GDP (pct)	0.0	0.0	0.0
Gold and Foreign Exchange Reserves (end of period)	10.6	13.7	11.5
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

1/ Estimates based on available monthly data in October 2001.
2/ GDP at current prices.
3/ GDP at factor costs.
4/ Merchandise trade; includes re-exports.
5/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs' basis; 2001 figures are estimates based on data available through August.

Sources: Ministry of Planning, Central Bank, Ministry of Economy and Commerce.

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven emirates. The individual emirates retain considerable power over legal and economic matters, most significantly over ownership and disposition of oil resources. Each emirate has its own Customs Service, as well as its own Civil Aviation Authority. The federal budget is largely derived from transfers from the individual emirates. Abu Dhabi and Dubai, the most prosperous emirates, contribute the largest shares.

Oil production and revenues from the sale of oil constitute the largest single component of GDP, accounting in 2000 for 33.9 percent of GDP and equaling roughly 50 percent of export and 90 percent of government revenue. Rising or declining oil prices have a direct effect on GDP statistics and an indirect impact on government spending but may, nevertheless, be less obvious in terms of overall economic activity. GDP rose by 20.4 percent in 2000, largely owing to much higher oil prices, 54.5 percent higher on average than in 1999. The great majority of the UAE's oil export income comes from Abu Dhabi Emirate, though Dubai and Sharjah also produce and export a modest amount of oil and gas products. The scarcity of oil and gas reserves in the UAE's northern emirates has led to continued, and successful, attempts at economic diversification. The oil sector's increased share of GDP in 2000 resulted from the sharp rise in oil revenues. Data over time, however, indicates that the UAE has made significant progress in diversifying its economy away from oil. While the non-oil sector's share of GDP in 2000 fell from 75.2 percent to 66.1 percent, it nonetheless grew a healthy 5.8 percent in real terms. Important sectors under development include tourism, manufacturing, air travel, and cargo services.

Government fiscal policies aim to distribute oil wealth to UAE nationals by a variety of means. Support from the wealthier emirates of Abu Dhabi and Dubai to less wealthy emirates is provided through the federal budget, largely funded by Abu Dhabi and Dubai, and by direct grants from the governments of Abu Dhabi and Dubai.

Federal commercial laws promote national ownership of business throughout the country. Foreign businesses, except those seeking to sell to the UAE Armed Forces, must have a UAE national sponsor. Agency and distributorship laws require that a business engaged in importing and distributing a foreign-made product must be owned 100 percent by a UAE national. Other businesses must be at least 51 percent owned by nationals. Companies located within the UAE's nine free zones are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE.

The central bank seeks to maintain the dirham/dollar exchange rate, which has not changed since 1980, and to keep interest rates close to those in the United States. Given these goals, the bank does not have the scope to engage in independent monetary policy. Trends in domestic liquidity continue to be primarily influenced by residents' demand for UAE dirhams relative to foreign exchange. Banks convert dirham deposits to foreign assets and back again in search of higher rates of return and in response to fluctuations in lending opportunities in the domestic market. To a limited extent, domestic liquidity can be influenced by the central bank through its sale and purchase of foreign exchange, use of its swap facility, and transactions in its certificates of deposit.

In recent years the UAE has run budget deficits. In 1994, the UAE budget deficit as a percentage of GDP was 7.9 percent; in 1998 that figure grew to 16.6 percent, largely attributable to a 34 percent drop in oil revenues that year. Much higher oil revenues in 2000, however, allowed the government to pay down the deficit to 2.9 percent. Deficits are financed by domestic borrowing, principally by overdrafts from banks in which government entities have an ownership share, and by liquidation of or interest from overseas assets.

2. Exchange Rate Policies

There are no restrictions on the import or export of either the UAE dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. Since November 1980, the dirham, though formally pegged to the IMF's Special Drawing Rights (SDR) at the rate of 4.76190 dirhams per SDR, with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent, has been kept in a fixed relationship with the U.S. dollar. The exchange rate is 3.67 UAE dirhams per one U.S. dollar.

3. Structural Policies

Foreign workers make up approximately 90 percent of the UAE labor force. In some areas of the private sector, 99 percent of workers are non-UAE nationals. In an effort to stem the problem of illegal immigration and employment, better regulate the labor market, and improve its efficiency of administration, a new Labor Law came into effect on 1 October 1996, which dramatically increased the severity of penalties applicable to immigration offenses. As a result of the new immigration rules, nearly 10 percent of the UAE's population (roughly 20 percent of its work force) left the country between the beginning of August and the end of October 1996, although most returned in subsequent months once their immigration status was clarified. Employment of UAE citizens, known as "Emiratization," is a stated national objective. In addition to persuasion and encouragement, the UAE Government has begun to employ legislation as a tool for promoting job opportunities for UAE nationals. Beginning in January 1999, employment of UAE nationals in the banking sector must increase by four percent per year, with UAE nationals required to comprise 40 percent of the total banking sector work force in 2009. Additional measures, such as a ban on unskilled labor from certain countries, are also being employed in an effort to manage the labor force.

There is no income tax in the UAE. Foreign banks pay a 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the highest customs duty is four percent. More than 75 percent of imports still enter duty free. Gulf Cooperation Council (GCC) states have formally agreed to move towards unified customs tariffs within the next five years. The UAE, with its dependence on trade and its commitment to the free flow of goods, continues to favor lower rates than its GCC neighbors and, under the agreed customs union, would actually have to raise tariffs on some items.

Market forces largely determine prices for most items. Exceptions include utilities, educational services, medical care and agricultural products, which are subsidized for UAE nationals.

A passport and visa are required for entry into the UAE. U.S. citizens may obtain visas for business and tourism at the airport upon arrival. These visas do not permit employment in the UAE.

4. Debt Management Policies

The UAE Federal Government has no official or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but the amounts involved are not large. The foreign assets of the Abu Dhabi and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the central bank. It is conservatively estimated that assets of the Abu Dhabi Investment Authority total more than $125 billion.

5. Significant Barriers to U.S. Exports

The UAE maintains non-tariff barriers to trade and investment in the form of restrictive agency, sponsorship, and distributorship requirements. To do business in the UAE outside of one of the free zones, a foreign business, in most cases, must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. They cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards. Re-tendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which UAE nationals own at least 51 percent of the share capital. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five percent of the value of the bid.

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign Limited Liability Company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

The laws and regulations governing foreign investment in the UAE are evolving. There is no national treatment for investors in the UAE. Non-GCC nationals cannot own land. Only one stock is currently open to foreign investors and is capped at 20 percent total foreign ownership, although limited participation by foreigners in a few mutual funds is permitted. There have been no significant investment disputes over the past few years involving U.S. or other foreign investors. Claims resolution is generally not a problem, because foreign companies tend not to press claims, believing that to do so might jeopardize future business activity in the UAE.

6. Export Subsidies Policies

The government does not employ subsidies to provide direct or indirect support for exports.

7. Protection of U.S. Intellectual Property

The UAE is a member of the World Trade Organization (WTO), a contracting party to the World Intellectual Property Organization (WIPO), and has signed the Paris Convention for the Protection of Industrial Property (patent, trademark, and related industrial property). In April 2001, the UAE was placed on the "Special 301" Watch List following the registration of a number of U.S. patent-protected medicines in violation of assurances from the UAE government that unlicensed copies of patent-protected medicines would no longer be registered. Discussions aimed at resolving this issue are ongoing.

In 1992, the UAE passed three laws pertaining to intellectual property: a Copyright Law, a Trademark Law, and a Patent Law. Enforcement efforts did not begin in earnest until 1994. As a result of these efforts, the UAE is largely clean of pirated sound recordings and films. The government has also undertaken enforcement actions against local companies selling pirated computer software. Efforts to combat computer software and video piracy in the UAE have been successful; the UAE is recognized as a regional leader in fighting computer software and video piracy.

UAE patent law provides process, not product, patent protection for pharmaceutical products. The Ministry of Finance and Industry is currently in the process of amending the

Patent Law. However, as of October 2001 a TRIPs-compliant patent law was not in place. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

According to the International Intellectual Property Alliance, in 1999 the UAE had the lowest estimated rate of software and music piracy in the Middle East.

8. Worker Rights

a. The Right of Association: There are no unions and no strikes. The law does not grant workers the right to organize unions or to strike. Foreign workers, who make up the bulk of the work force, risk deportation if they attempt to organize unions or to strike. Since July 1995, the UAE has been suspended from U.S. Overseas Private Investment Corporation programs because of the government's lack of compliance with internationally recognized worker rights' standards.

b. The Right to Organize and Bargain Collectively: The law does not grant workers the right to engage in collective bargaining. Workers in the industrial and service sectors are normally employed under contracts that are subject to review by the Ministry of Labor and Social Affairs. The Ministry of Interior Naturalization and Immigration Administration is responsible for reviewing the contracts of domestic employees as part of residency permit processing. The purpose of the review is to ensure that the pay will satisfy the employee's basic needs and secure a means of living. For the resolution of work-related disputes, workers must rely on conciliation committees organized by the Ministry of Labor and Social Affairs or on special labor courts. Labor laws do not cover government employees, domestic servants, and agricultural workers. The latter two groups face considerable difficulty in obtaining assistance to resolve disputes with employers. While any worker may seek redress through the courts, this puts a heavy financial burden on those in lower income brackets. In Dubai's Jebel Ali Free Zone, the same labor laws apply as in the rest of the country.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is illegal and not practiced. However, some unscrupulous employment agents bring foreign workers to the UAE under conditions approaching indenture. The government prohibits forced and bonded child labor and enforces this prohibition effectively. In 1996, the UAE ratified the International Labor Organization's 1957 Abolition of Forced Labor Convention.

d. Minimum Age for Employment of Children: Labor regulations prohibit employment of persons under age 15 and have special provisions for employing those age 15 to 18. The Department of Labor enforces the regulations. Other regulations permit employers to engage only adult foreign workers. In 1996, the UAE ratified the International Labor Organization's 1973 Minimum Age Convention. In 1993, the government prohibited the employment of children under the age of 15 as camel jockeys and of jockeys who do not weigh more than 99 pounds. The Camel Racing Association is responsible for enforcing these rules. Children under the age of 15 working as camel jockeys have still been observed. Newspaper articles have appeared in 2000 detailing instances of young children being smuggled into the UAE to work as camel jockeys. The government prohibits forced and bonded child labor and enforces this prohibition effectively (see section “c” above). The government does not issue visas for foreign workers under the age of 16 years. Education is compulsory through the intermediate stage, approximately 13 or 14 years of age.

e. Acceptable Conditions of Work: There is no legislated or administrative minimum wage. Supply and demand determine compensation. However, according to the Ministry of Labor and Social Affairs, there is an unofficial, unwritten minimum wage rate, which would afford a worker and family a minimal standard of living. As noted above, the Ministry of Labor and Social Affairs reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The standard workday and workweek are eight hours a day, six days per week, but these standards are not strictly enforced. Certain types of workers, notably domestic servants, may be obliged to work longer than the mandated standard hours. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 122 degrees Fahrenheit. Most foreign workers receive either employer-provided housing or housing allowances, medical care, and homeward passage from their employers. Most foreign workers do not earn the minimum salary of $1,090 per month required to obtain residency permits for their families. Employers have the option to petition against any foreign employee who leaves his job without fulfilling the terms of his contract for a 6-month ban from the work force.

The Ministry of Health, the Ministry of Labor and Social Affairs, municipalities and civil defense units enforce health and safety standards. The government requires every large industrial concern to employ a certified occupational safety officer. An injured worker is entitled to fair compensation. Health standards are not uniformly observed in the housing camps provided for foreign workers. Workers' jobs are not protected if they remove themselves from what they consider to be unsafe working conditions. However, the Ministry of Labor and Social Affairs may require employers to reinstate workers dismissed for not performing unsafe work. All workers have the right to lodge grievances with Ministry officials, who make an effort to investigate all complaints. However, the Ministry is understaffed and under-budgeted, and complaints and compensation claims are backlogged. In 2000, the government announced that it intends to establish a new court system to speed-up labor cases.

Rulings on complaints may be appealed within the Ministry and ultimately to the courts. However, many workers choose not to protest for fear of reprisals or deportation. The press periodically carries reports of abuses suffered by domestic servants, particularly women, at the hands of some employers. Allegations have included excessive work hours, nonpayment of wages, and verbal and physical abuse.

f. Rights in Sectors with U.S. Investments: There is no difference in the application of the five worker rights discussed above between the sectors of the UAE economy in which U.S. capital is invested and other sectors of the economy. If anything, sectors containing significant

U.S. investment, such as the petroleum sector, tend to have better working conditions, including higher safety standards, better pay, and better access to medical care.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		211
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		115
Banking		(D)
Finance/Insurance/Real Estate		-1
Services		71
Other Industries		(D)
TOTAL ALL INDUSTRIES		573

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.